

## STATUS OF THE ECONOMIC AND SOCIETAL DEVELOPMENT SECTOR

This sector encompasses all areas related to democracy, agriculture, education, refugees and human rights, economic and private sector development, and media.

By the end of this quarter, all of the sector's IRRF funding had been obligated, and more than 93% had been expended. As of April 2007, 7,999 projects (97%) had been completed. For the status of IRRF funding in this sector, see Figure 2-25.

For the status of IRRF projects in this sector, see Figure 2-26.

### Democracy

Most IRRF funds in this subsector were expended in 2005 to support the national elections, draft the constitution, and conduct the constitutional referendum. Various funding streams reviewed later in this section—ESF and CERP—have been used to strengthen Iraq's government at the grassroots level by strengthening civil-society organizations.

The U.S. intention to double the number of Provincial Reconstruction Teams (PRTs) in Iraq is the most recent major development in this sector. The goal of the 10 new PRTs is to create "areas where moderates will have political space to operate" and where the "emphasis is on shaping the political environment rather than building infrastructure."<sup>98</sup>

The original PRTs—small civilian-military units that assist provincial and local governments in Iraq to govern effectively and deliver essential services—focused on "facilitating the allocation, contracting and follow-up" of local

reconstruction projects.<sup>99</sup>

The major challenges for PRTs have been security, adequately matching available staff with the required skill sets requested on the ground, and resources. According to a joint operational assessment of PRTs completed last quarter by MNF-I, MNC-I, and the National Coordination Team (NCT),<sup>100</sup> the ability of PRTs to engage with local governments is "directly related to support from the coalition force" in that governorate because of security.

Figure 2-25  
**STATUS OF IRRF 2 FUNDS - ECONOMIC AND SOCIETAL DEVELOPMENT**  
\$ Billions  
Source: DoS, *Iraq Weekly Status* (3/27/2007)

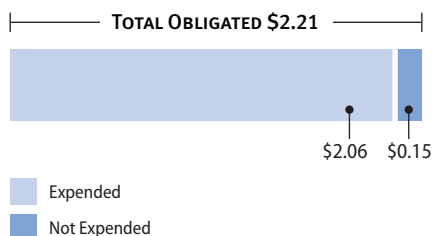
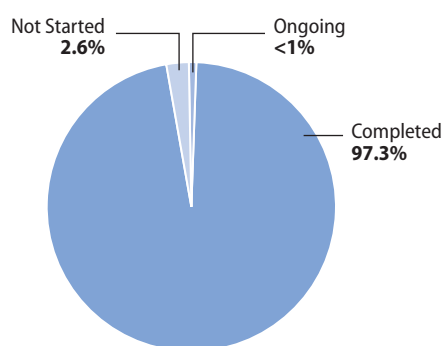


Figure 2-26

**STATUS OF IRRF 2 PROJECTS - ECONOMIC AND SOCIETAL DEVELOPMENT**Sources: IRMS, *IRMO Rollup* (3/30/2007); USAID, *Activities Report* (4/10/2007)

Note: Numbers may be affected by rounding.

Project Type	Not Started	Ongoing	Completed	Total
Democracy-building Activities	211		5,912	<b>6,123</b>
Schools		1	809	<b>810</b>
Civic Program			446	<b>446</b>
Education			445	<b>445</b>
Agriculture	1		374	<b>375</b>
Public Buildings Construction and Repair			8	<b>8</b>
Migration and Refugee Assistance	3		2	<b>5</b>
Vocational Training	1		3	<b>4</b>
Market-based Reforms	1			<b>1</b>
Ministerial Capacity Development	1			<b>1</b>
<b>Total</b>	<b>218</b>	<b>1</b>	<b>7,999</b>	<b>8,218</b>

**OUTCOMES OF U.S. AND INTERNATIONAL DEMOCRACY PROJECTS**

Last quarter, DoD reported skepticism about the **National Reconciliation and Dialogue Project**, noting that “the project has shown little progress,” while at the same time sectarian violence continues to increase.<sup>101</sup> This quarter, DoD reports a shift in efforts to achieve political progress from a centralized “national compact” approach to a more localized program, “focusing more on political accommodation at the provincial level.”<sup>102</sup>

The United States continues to encourage Iraqis to pursue actionable steps to achieve reconciliation. Since August, three of the four scheduled reconciliation conferences have taken place. Future milestones for 2007 include passing and enforcing constitutional enabling legislation and holding provincial elections throughout the country.<sup>103</sup> Finally, according to DoD, President Bush’s *New Way Forward in Iraq* emphasizes a “better level of compromise”

on the part of the Iraqis, especially in what the administration views as key components of reconciliation: enacting a hydrocarbon law, conducting genuine and credible local elections, reviewing the constitution, and reforming the de-Ba’athification policy.

**Agriculture**

More Iraqis work in agriculture than any other industry. Agriculture supports a rural population of 7 million people, provides employment to approximately 20% of the nation’s workforce, and accounts for 8% of Iraq’s GDP.<sup>104</sup> USAID has been responsible for almost all IRRF funding for the agriculture subsector through the **Agriculture Reconstruction and Development Program for Iraq (ARDI)**, which officially closed in December 2006. As of early April 2007, 374 of the 375 IRRF-funded projects in the agriculture subsector had been completed, and an additional one has yet to begin.

USAID issued an RFP for a follow-up project using ESF funding. The RFP for this new program, **Inma**, is expected to be signed in April 2007.<sup>105</sup> For more detailed information on the project, see the ESF section of this Report. The Inma award is contingent on funding that has yet to be apportioned.<sup>106</sup>

In addition, the **Iraq Agriculture Extension Revitalization Project (IAER)**, awarded by the U.S. Department of Agriculture (USDA), is in the start-up phase. A conference involving Iraqi and U.S. stakeholders was held in Amman, Jordan, March 11-14, 2007. The meeting was attended by representatives of all of Iraq's universities, the Ministry of Agriculture, the Ministry of Higher Education, and the Kurdistan region.<sup>107</sup>

The U.S. University Consortium, which comprises four U.S. universities, is in the process of developing a work plan to be approved by USDA. When the plan is approved, the

consortium will conduct a series of two-week trainings for extension specialists on farming, poultry production, crop production, and other topics.<sup>108</sup>

## Education

Funding in the education subsector was fully expended in 2006. This quarter, GRD reported that the rehabilitation of **Waddi Al Qura Elementary School** was completed on February 26, 2007. Another project, the construction of a **primary school in Mahala**, was terminated for convenience in February 2007 "due to Ministry of Education's dislike of its design and location."<sup>109</sup>

The outputs in the education subsector are reviewed in Table 2-11.

Although the United States has made progress on reconstruction activities in the education sector, continuing security issues prevent many Iraqis from using the facilities.

### SCHOOLS REPAIRED BY U.S. RECONSTRUCTION PROJECTS

TOTAL SCHOOLS (2003)	SCHOOLS NEEDING REPAIR (2003)	PROJECTS COMPLETED	PROJECTS IN PROGRESS	PROJECTS NOT YET STARTED
14,121	11,000	2,358-USAID IRRF 1,741-USAID IRRF 807-GRD-PCO IRRF 1,365-MNF-I	N/A-USAID IRRF 1 77-USAID IRRF 2 2-GRD-PCO IRRF 2 N/A-MNF-I	N/A-USAID IRRF 1 N/A-USAID IRRF 2 1-GRD-PCO IRRF 2 N/A-MNF-I

Sources: DoS, *Section 2207 Report*, October 2006, p. 17 (Total Schools and Schools Needing Repair, MNF-I data); GRD-PCO, response to SIGIR, January 4, 2007 (PCO projects); all other metrics unchanged since last quarter.

TABLE 2-11

Iraqi school children.



According to statistics from Iraq's Ministry of Education, only 30% of Iraq's 3.5 million students are currently attending classes.<sup>110</sup>

### Refugees and Human Rights

U.S.-funded programs helped approximately 300,000 Iraqi refugees reintegrate into their communities between 2003 and 2006; however, the trend of repatriation has reversed since the upsurge of sectarian violence.<sup>111</sup> The UN High Commissioner for Refugees (UNHCR) estimates that the number of internally displaced Iraqis increased 50% during 2006—approximately 730,000 (70% women and children)—since the bombing of the Al-Askari Shrine in Samarra in February 2006.<sup>112</sup> Every day, 40,000-50,000 Iraqis flee their homes, and the UNHCR expects up to 2.3 million internally displaced persons (IDPs) by the end of 2007.<sup>113</sup> The U.S. government also expects the current violence to generate an increasing number of IDPs.<sup>114</sup>

### REFUGEES

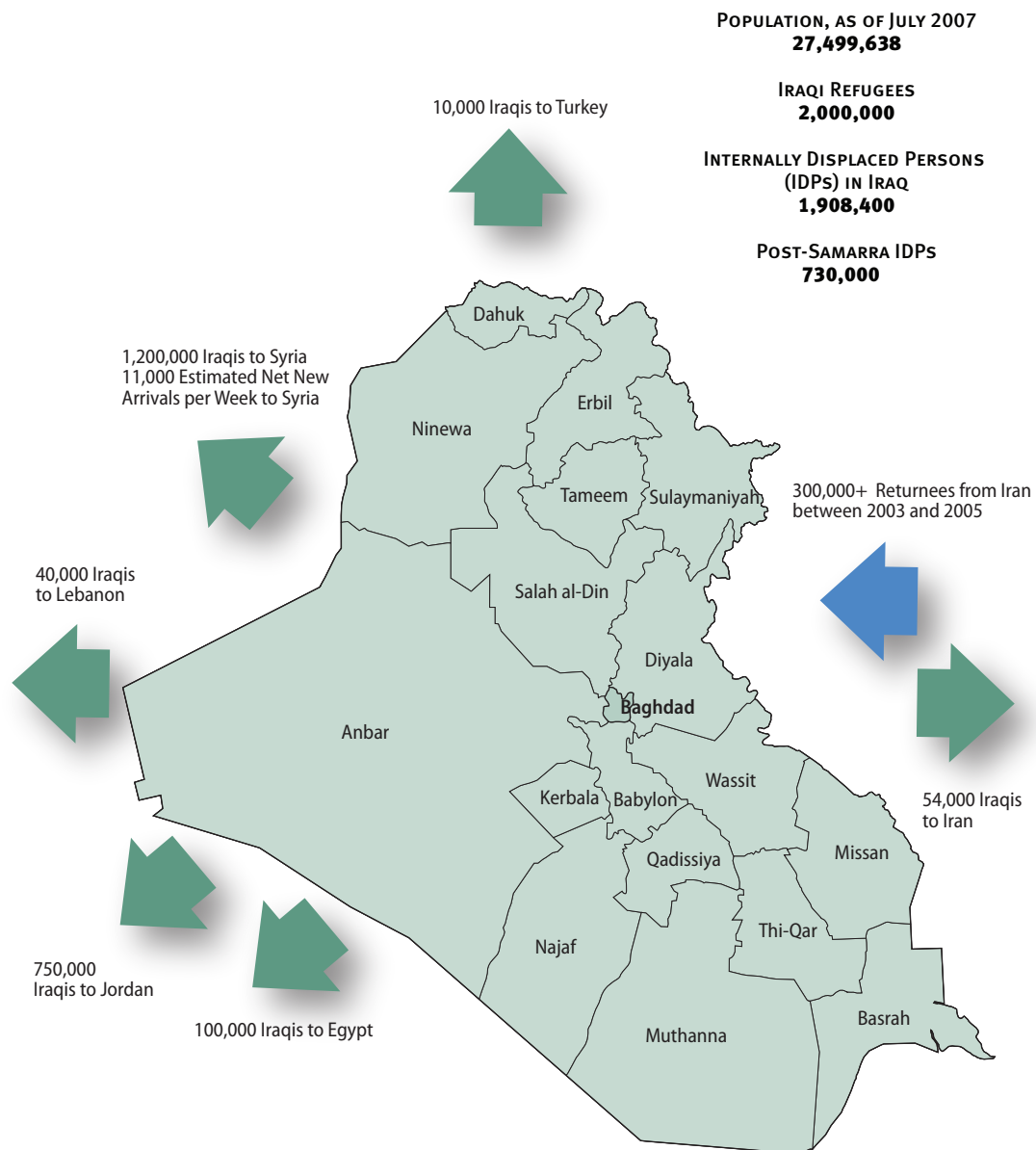
As of December 28, 2006, all allocations had been obligated, and \$147 million had been expended in this subsector. Updates to the January 2007 DoS *Section 2207 Report* are not available for this subsector.<sup>115</sup> In FY 2004, \$105 million of the IRRF was allocated to life-sustaining assistance for conflict victims, including refugees and IDPs as part of the Migration and Refugee Assistance Program. In FY 2005, an additional \$54 million was allocated; in FY 2006, another \$27 million brought the total allocation to \$186 million.<sup>116</sup>

IRRF funds have produced a number of accomplishments in this area. For example, IRRF funds supported negotiations by the DoS Bureau of Population, Refugees, and Migration (PRM) to facilitate the voluntary return of 10,000 Kurdish-Turkish refugees to Turkey. IRRF also funded the Office of U.S. Foreign Disaster Assistance's cash-for-work programs, which generated employment in several Iraqi governorates. USAID projects provided livelihood assets to disabled people and supported

Figure 2-27

## MOVEMENT OF INTERNALLY DISPLACED IRAQIS AND IRAQI REFUGEES

Sources: UNHCR, Iraq Support Unit Update (December 2006 - January 2007); CIA, 2007 World Factbook; For population statistics only: UNHCR, "Iraq Situation Map: Situation as of October 2006"; UNHCR, "Statistics on Displaced Iraqis Around the World" (April 2007)



Iraqi IDPs by Province		Returnees in Iraq, as of October 2006	
		2006	401
Northern Provinces	741,900	2005	55,267
Central Provinces	450,000	2004	191,645
Southern Provinces	716,500	2003	50,524
		2002	1,142
<b>Total</b>	<b>1,908,400</b>	<b>Total</b>	<b>298,979</b>

the activities of local prosthetic device manufacturers. USAID concluded activities related to mobile health units for returnees and IDPs. However, it continues to build the capacity of Iraq's CSOs to advocate effectively on human rights issues and to promote citizen awareness.<sup>117</sup>

IRRF funds also supported the voluntary return and reintegration assistance for an estimated 150,000 newly returned Iraqi refugees, helping with health, water/sanitation, shelter, and primary education issues.<sup>118</sup>

Other U.S.-funded programs also benefit Iraqi refugees and IDPs:

- **The Commission for the Resolution of Real Property Disputes:** \$10 million in IRRF funds have been obligated and expended to support this organization, which was originally set up to assist Iraqi refugees returning to their homes.<sup>119</sup>
- **The Demining Program:** \$83 million has been allocated to contribute to post-battle operations by improving the humanitarian environment for returning populations, especially children. As part of the program, refugees and IDPs have been assisted in safe passage and integrated into the northern governorates.<sup>120</sup>

Refugee assistance is part of the political track objective of President Bush's FY 2007 Supplemental and FY 2008 War Supplemental requests. To date, IRRF and other funding reallocations for refugees and IDPs in FY 2007 total approximately \$22 million. This number

will increase as the FY 2007 base funding is made available, following congressional passage of a one-year, FY 2007 continuing resolution to fund the government.<sup>121</sup>

On February 5, 2007, the Secretary of State announced the establishment of the Iraq Refugee and Internally Displaced Persons Task Force, which was formed to coordinate refugee and IDP assistance to the region and refugee resettlement. The United States now plans to accept up to 7,000 Iraqi refugees over the next 6-9 months and intends to afford special treatment to those Iraqis employed by, or with close association to, the U.S. government.<sup>122</sup> The United States has pledged \$18 million to the UNHCR to help Iraqi refugees in the region, 30% of UNHCR's annual appeal.<sup>123</sup> These funds will help boost the UN mandate to make referrals to resettlement countries and build its resettlement operations in the region.

## HUMAN RIGHTS

To promote human rights in Iraq, \$15 million of IRRF funds have been allocated. All funds have been obligated, and \$12 million has been expended. No updates to the DoS October 2006 *Section 2207 Report* are available at this time.<sup>124</sup>

## Economic and Private-sector Development

Private-sector development programs have been allocated \$393 million of the IRRF. All funding in this sector has been obligated.<sup>125</sup>

## ECONOMIC GOVERNANCE

The USAID **Economic Governance (EG) II Project** provides advisory and capacity assistance to the GOI in fiscal, tax, custom, monetary policy, commercial law, social safety net, pension, and other areas. Last quarter, USAID reported that \$113.5 million was distributed to the EG II project.<sup>126</sup>

Since October 2006, progress has been made on projects related to EG and institutional reforms. The tax automated system, **TAGDEER**, was installed at the headquarters of the General Commission for Taxes.<sup>127</sup> In addition, the January 2007 DoS *Section 2207 Report* stated that USAID “assisted in operation of Pilot Social Welfare Program in Baghdad at the Ministry of Labor and Social Affairs by configuring and troubleshooting the system and providing additional training, support that is vital for a successful regional rollout.”<sup>128</sup>

**FMIS**, the new web-based accounting and reporting system, is now available for 102 of the 182 budget agencies. These agencies represent approximately 80% of the GOI expenditures and 99% of revenues.<sup>129</sup> The remaining 82 agencies have received training on the system; however, to have access to FMIS, they are still awaiting the 2007 GOI budget for equipment and connectivity.<sup>130</sup> SIGIR is beginning an audit on the FMIS this quarter and will report the results in the next Quarterly Report.

U.S.-funded projects continue to support the **Central Bank of Iraq (CBI)** with monetary policy and restructuring the banking sector. Since October 2006, Treasury has

continued to connect branch banks to the Iraqi Payment System (IPS), an automated bank communications system that allows banks to electronically clear commitments. Besides Rafidain and Rahseed, up to 15 additional banks will join the system using their own communications technologies.<sup>131</sup>

## PRIVATE-SECTOR DEVELOPMENT PROGRAM (IZDIHAR)

USAID reported that IRRF has distributed approximately \$96.1 to **Izdihar**, and USAID is planning a new Provincial Economic Growth project that will begin in late 2007.<sup>132</sup>

Izdihar continues to support the GOI on WTO accession. Last quarter, the program helped finalize GOI responses to questions from WTO members on Iraq’s Memorandum of Foreign Trade Regime and submitted them to the WTO Secretariat. In addition, it provided training to prepare the Iraqi delegation for its formal meeting with the WTO working party members.<sup>133</sup>

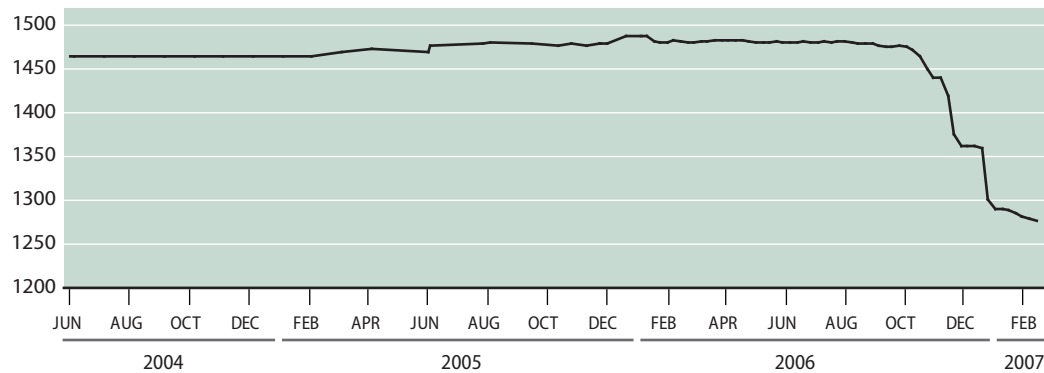
The Iraq Company for Bank Guarantees (ICBG) started its operation in November 2006. It has accepted applications for loans from the northern region and southern provinces. ICBG is in the process of reviewing these loan applications.<sup>134</sup> In February 2007, ICBG received an additional \$5 million grant from USAID. To date, the company has approved 12 guarantees for \$187,000, and it has expanded its members to 12 private banks.<sup>135</sup>



Figure 2-28

**CURRENCY EXCHANGE RATE**

Currency (Auction Selling Price Dinar/\$1 USD)

Sources: IRMO, *Weekly Status Reports* (6/28/2004 - 3/13/2007); Central Bank of Iraq

A number of training initiatives were reported last quarter. Izhdihar established five **Small Business Development Centers** in Hilla, Baghdad, Erbil, Kirkuk, and Talafar to train 100 participants in business development through an e-knowledge portal. Also, 77 private bank credit officers in Baghdad and 20 in Erbil received training on modern bank lending practices to encourage private bank lending to small and medium-sized enterprises.<sup>136</sup> USAID also reported this quarter that Izhdihar has provided more than 40,000 hours of training in international accounting standards.<sup>137</sup>

Izhdihar has also implemented programs to increase lending opportunities for Iraqis. Its **Sustainable Microfinance** program continues to manage more than \$10 million in grants for operational and loan capital to three microfinance institutions (MFIs), operating in 14 governorates and supporting a cumulative total of more than 15,000 loans. The program also provided technical assistance and conducted basic training for 44 Iraqi MFI staff, advanced training for 11 staff, and training for 11 trainers.<sup>138</sup>

**IRAQ'S CURRENT ECONOMY**

Despite the ongoing activities and results from those U.S.-funded projects, Iraq's overall economic environment is still fragile. Inflation and unemployment continued to plague the country this quarter.

The 2006 Stand-By Arrangement (SBA) inflation goal of 15% was not met: IMF's third and fourth SBA reviews showed that inflation was close to 65% in 2006, significantly higher than last year's 32%. Inflation in 2007 is expected to remain high at 50% if there is no improvement in security and no increase in oil production and government investment.<sup>139</sup> A positive first step occurred early this year, however, as year-on-year inflation in February 2007 was 37%—significantly lower than January's year-on-year rate of 66%.<sup>140</sup>

To cope with this increasing inflationary pressure, the CBI began to implement policies in September 2006 designed to appreciate the dinar, as suggested by the IMF.<sup>141</sup> Iraq is an import-reliant country; therefore, a more valuable currency may help alleviate some pressure. As of March 13, 2007, the exchange rate was 1,277 Iraqi dinars to the dollar,<sup>142</sup> a 12.5%



appreciation from June 2004. For the Iraqi dinar's exchange rate during the past few years, see Figure 2-28.

The CBI has also raised its interest rate from 16% to 20%, as of December 24, 2006, to encourage people to hold dinars and lower expectations of inflation.<sup>143</sup> Other economic indicators in Iraq include:

- Per capita GDP is rising in Iraq—from \$951 per person in 2004 to an estimated \$1,205 in 2005 and \$1,771 in 2006.<sup>144</sup> However, when inflation is taken into account, real GDP growth is estimated to fall short of 2% in 2006—well below the SBA's 10.4% benchmark and the medians of other Middle Eastern and oil-producing countries.<sup>145</sup>
- Unemployment is very high in Iraq. In its annual unemployment statistics, updated every November, the Central Office for Statistics and Information Technology (COSIT) reported that unemployment is 18% and that underemployment is approximately 38%.<sup>146</sup>

## Media

IRRF funding for civil society and independent media programs ended on September 30, 2006.<sup>147</sup> The objectives of the Independent Media Programs were to develop democratic media laws, promote media excellence and professionalism, support media as a commercial enterprise, and strengthen media associations and NGOs.<sup>148</sup>

Journalists and news publications in Iraq continue to be the target of threats and attacks. On March 4, 2007, the editor of the al-Mashriq newspaper was killed in front of his Baghdad home,<sup>149</sup> bringing the total number of journalists killed to 100 in Iraq since the beginning of the U.S.-led invasion in 2003. During this period, 37 media support workers have also been killed.<sup>150</sup>